

The Treasury

Budget 2021 Information Release

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- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
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Treasury Report: Material for Joint Ministerial Meeting on Welfare Reform Ahead of Budget 2021

Date:	27 November 2020	Report No:	T2020/3591
		File Number:	SH-3-0-1

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the contents of this report and key messages.	Read ahead of Joint Ministerial meeting on Tuesday 1 December 2020 at 4pm

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Laura Browne	Senior Analyst, Welfare And Oranga Tamariki ^[39]	^[35]	✓
Chris Thompson	Senior Analyst, Welfare And Oranga Tamariki		
Keiran Kennedy	Manager, Welfare And Oranga Tamariki		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Material for joint Ministerial Meeting on Welfare Reform Ahead of Budget 2021

Purpose of Report

1. You are meeting with the Prime Minister, Minister for Children, Minister of Education, Minister for Social Development and Employment, and Minister of Revenue on Tuesday 1 November at 4pm to discuss the potential for short term changes to income support. This report provides advice to support discussions at that meeting.
2. The agenda for the meeting is being set by the Prime Minister's office and we understand it will cover the following items.
 - *Budget 21: key goals and priorities*
 - *Review options for benefit increases*
 - o *Consideration for student support and carers support*
 - o *Other changes to consider (TAS, AS, Childcare etc.)*
 - *Review options for Working for Families short term changes*
 - o *Consider these as steps towards longer term review*
 - *Confirm options to progress further work on*
 - *Confirm next steps with officials*
3. Material for this meeting includes:

A3s prepared by MSD to support discussions at this meeting.	Welfare Overhaul – welfare system work programme Key areas of reform to improve income adequacy and/or make work pay
Reports prepared by MSD on main benefit increases.	REP/20/11/1081: Advice on different options for increasing main benefits REP/20/11/1107: Implementation advice on increasing main benefits and complementary changes to other settings
Joint scoping report on a Working for Families review	T2020/3615: Welfare Overhaul: Review of Working for Families tax credits – options for change
Treasury analysis showing the impact of benefit increases relative to WEAG recommendations	T2020/3497: Impact of a benefit rate increase relative to WEAG recommendations T2020/3565: Additional analysis around the impact of a benefit rate increase relative to WEAG recommendations

Key Messages

4. There are three high level key messages we recommend that you raise with your colleagues ahead of the specific discussions around options for Budget 2021.

The fiscal environment is constrained. Reducing the ongoing deficit will require stricter management of ongoing spending so the fiscal position does not become unsustainable. This will require trade-offs.

5. As we advised previously, in a fiscally constrained environment there will be limited space to progress significant ongoing income support packages alongside your existing manifesto commitments (i.e. lifting benefit abatement thresholds) and cost pressures [T2020/3462 refers].
6. Cabinet agreed to set the Budget 2021 operating allowance at \$2.625 billion p.a. Manifesto commitments are expected to cost around \$720 million p.a. Increasing main benefits on top of this would leave less than half of your budget allowance, with approximately \$1.2 billion p.a. remaining for everything else.
7. This will be very challenging and will require difficult decisions. In particular, it may not be possible to fund critical Health cost pressures within allowances if you also commit to a main benefit increase.

Given there will be significant pressures on the budget, it is important that decisions follow the process agreed by Cabinet.

8. Agreeing to fund any income support package as a pre-commitment is inconsistent with Cabinet's agreed Budget 2021 strategy. Cabinet agreed to limit the process to only the highest priority manifesto commitments and critical cost pressures. Moreover, Cabinet confirmed that there would be an exceptionally high hurdle for any out-of-cycle funding requests [CAB-20-MIN-0483 refers].

There is a need to be clear around what the broader priorities for reform are in the welfare space for this parliamentary term.

9. The Labour Party manifesto includes a commitment to continuing the welfare overhaul and implementing the recommendations of the Welfare Expert Advisory Group (WEAG). Overhauling the welfare system, more specifically the income support system, could involve reform across the following areas:
 - a MSD assistance
 - b Working for Families tax credits
 - c Social Unemployment Insurance [T2020/3457 refers].
10. Reform in any one of these areas is a significant undertaking, not only given the fiscal impacts, but also in light of the capacity required within the system to make multiple changes simultaneously (including IT¹, frontline delivery and policy). Moreover, these

¹ The risk of MSD's current IT systems may also constrain some options for more structural changes. Moreover, there are a number of interface issues between MSD and IR, as discussed in the Working for Families paper, which would need to be addressed in this context.

areas have significant interconnections and change in one area impacts on other areas.² There will be a need for prioritisation and sequencing.

11. Cabinet agreed to a Welfare Overhaul work programme in November 2019 [CAB-19-MIN-0587 refers]. The work programme will need to adjust in light of COVID-19, given the additional pressures facing individuals and families, and the shifts in the labour market and broader economy.

12. ^[33]

Nevertheless, it would be helpful to provide any early indication of the scale of your ambition for reform, and whether there are any particular areas you want to make progress on during this parliamentary term. This is particularly important as there are a number of policy changes, including those involving structural reforms, which will require significant lead-in times [T2020/3615 refers].

Income Support Options for Budget 2021

13. We understand that the ministerial discussion is likely to focus more specifically on income support changes that could be progressed as part of Budget 2021. These include options for benefit increases ^[33]

Supporting material has been provided to aid this discussion.

14. There are specific manifesto commitments ^[33] that will require funding within this term. Furthermore, we understand that Minister Sepuloni is also interested in discussing a number of other initiatives in the context of Budget 2021.

15. If your focus is on reducing material hardship, particularly for children, then there are choices around how you address this issue. A main benefit increase is one lever, however this may have less of an impact for some individuals and families facing significant and increasing housing costs.

16. Similarly there are some low-income working families with children that do not receive a main benefit that are also likely to be facing income adequacy issues (particularly when taking into account costs such as childcare). If you are interested in focusing on particular cohorts, such as families with children, there may be more targeted options available.

Possible Budget 2021 income support initiatives

17. ^[33]

You have choices around when you implement these changes, how they are sequenced, and how they align with other changes and wider reform programmes (e.g. the broader review of hardship assistance).

² For example, the WEAG recommended introducing an **Earned Income Tax Credit**. This would replace the **In-Work Tax Credit** and the **Minimum Family Tax Credit**, providing for a smoother transition between benefit and work. The design parameters for this tax credit would be tightly linked to abatement settings for main benefits, and therefore should be considered in the round. Moreover, to minimise the number of potential losers from this structural change, it would be ideal to introduce it alongside a broader set of income support changes. See T2020/3615.

18. The table below includes a list of other income support initiatives we understand Minister Sepuloni may be interested in discussing. We do not have final costings, however have included an initial indicative estimate of the scale of costs.

Increasing income support and addressing debt	- Increase benefit abatement thresholds [33]	\$50-\$150m p.a.
	- Main benefit increase [33]	>\$500m p.a.
[33]		
[33]		
Better support for disabled people and people with health conditions	- Improving subsequent work capacity medical certificate requirements for JS-HCD recipients ⁶	\$15-\$50m p.a.

Main benefit increase

19. A \$25 per adult increase to main benefits would have a significant impact on reducing child poverty⁷ and improving immediate income adequacy issues. However, the fiscal cost is significant.
20. Note that if there is a decision to progress a \$25 per adult increase to main benefits, there are a number of associated policy decisions required, which could further increase the fiscal cost (REP/20/11/1107 refers). These include:
- a Student allowance – whether to extend the \$25 per adult increase to this cohort
 - b [33]
 - c [33]

3 [33]

4

5

6 Cabinet will need to make a decision around reinstating medical certificate requirements for Jobseeker Support-Health Condition & Disability. MSD's previous practice of requiring work capacity medical certificates at fixed intervals (generally every 13-weeks) was temporarily suspended until 31 July 2021 to manage increased demand due to COVID-19. There are issues with returning to MSD's previous practice so a new policy will need to be developed with associated fiscal costs.

7 Additional income support needs to be in place by 1 April 2022 in order to have an impact on the next round of child poverty targets. A decision pre-Christmas would allow for these changes to be implemented from 1 April 2021 and consequently would be reflected in the medium term child poverty targets.

- d Minimum Family Tax Credit (MFTC) – whether to partially or fully align the MFTC threshold with the main benefit increase, or defer for consideration through the Working for Families review).
- e Transitional Assistance Payment (TAP) – whether to introduce a TAP to reduce the number of losers from the changes.

Recommended Action

We recommend that you:

- a **note** the key messages in this report.

Keiran Kennedy
Manager, Welfare and Oranga Tamariki

Hon Grant Robertson
Minister of Finance